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1967

TRIAD OIL CO. LTD.

ANNUAL REPORT

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TRIAD OIL CO. LTD.

FINANCIAL AND OPERATING HIGHLIGHTS

		1967	1966	% Increase (Decrease)
FINANCIAL:	Gross Revenue	\$18,820,972	\$18,456,515	2.0
	Cash Flow from Operations	\$10,691,563	\$10,220,130	4.6
	Per Share	60c	57c	
	Net Earnings	\$ 2,290,355	\$ 1,987,580	15.2
	Per Share	13c	11c	
	Long Term Debt	\$63,964,284	\$70,530,896	(9.3)
OPERATING:	Crude Oil and Natural Gas Liquids			
	– Annual sales in barrels	5,864,931	6,240,371	(6.0)
	– Barrels per day	16,068	17,097	
	Natural Gas			
	– Annual sales in thousands of cubic feet	13,869,000	11,871,000	16.8
	– Thousands of cubic feet per day	37,995	32,522	
	Sulphur			
	– Annual sales in long tons	66,226	57,970	14.2
	– Long tons per day	181	159	

BOARD OF DIRECTORS

C. R. T. Cunningham	Vice-President and Director Cochran, Murray & Co. Limited	Toronto
A. F. Down, OBE, MC	A Managing Director of The British Petroleum Company Limited	London, England
Peter Kilburn	President Greenshields, Incorporated	Montreal
F. A. McKinnon	Vice-President and General Manager Triad Oil Co. Ltd.	Calgary
D. F. Mitchell	President The British Petroleum Company of Canada Limited and BP Canada Limited	Montreal
J. M. Pattinson, CBE	Formerly a Deputy Chairman and a Managing Director of The British Petroleum Company Limited, London, England – now retired	London, England
M. M. Pennell	Managing Director BP Exploration Company Limited	London, England
J. H. Porter	President Triad Oil Co. Ltd.	Calgary
C. R. Tanner	Director Tanner Bros. Limited	Vancouver
E. H. Tanner, OBE	Director Tanner Bros. Limited	Calgary

OFFICERS

Chairman of the Board	D. F. Mitchell
President	J. H. Porter
Vice-President and General Manager	F. A. McKinnon
Vice-President and Exploration Manager	E. W. Best
Secretary-Treasurer and Administration Manager	J. I. Rawlinson
Assistant Secretary-Treasurer and Controller	K. T. Allison

REPORT TO THE SHAREHOLDERS:

Triad's activities in 1967 were marked by a number of exploration successes and by continuing steady improvement in the Company's position.

Net earnings for the year were \$2,290,355, up 15.2% on the previous year.

Gross revenue totalled \$18,820,972, some 2.0% higher than in 1966. The effect of a decline in crude oil and gas liquids production was more than offset by increases in gas and gas products sales and improved prices received for sulphur.

Our first year of joint exploration activity with other BP subsidiaries has been encouraging. Our land holdings have been augmented with properties of both short and long term interest. Our current winter drilling program has just been completed, resulting in a number of exploration successes. Two of these were reef oil discoveries and a third was a sour gas discovery in the South Kaybob area. A further program of work is planned for these areas in 1968 to assess the potential of the discoveries.

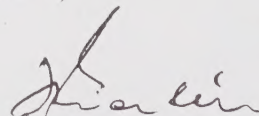
There has been a marked improvement in the past year in the outlook for the petroleum industry in Western Canada. The recent exemption of Canada from the new U.S. investment curbs has removed a major area of uncertainty and, in the longer term, the growing demands of North America seem likely to be met increasingly from Canadian sources. It is gratifying to note that oil pipeline deficiencies, which were highlighted by the Middle East crisis in mid-1967 and which prevented the industry in Canada from making its full contribution to the oil needs of the continent at that time, are now being remedied. In addition, recent agreements for export to the U.S. of additional quantities of natural gas and the construction by Trans-Canada Pipe Lines Limited of its Great Lakes loop line places the industry in a position to supply increasing quantities of natural gas to the U.S. and Eastern Canada.

Triad's plans for 1968 include a contribution of \$3 million to a joint exploration program in Canada with other BP subsidiaries, totalling some \$6 million. These funds will be applied to a continuation of the more diversified exploration program started last year. The balance of Triad's cash flow is being applied to routine development and the reduction of long term debt and, thus, the build-up of equity value. Net production of crude oil in 1968 is expected to be maintained at about the 1967 level. There will be increases in gas and sulphur sales and it is estimated that net income for the year will show a moderate increase over the previous year.

The Directors wish to acknowledge the contribution made to the Company's affairs by Mr. J. McV. Luard who resigned from the Board during 1967 on his retirement from The British Petroleum Company. Mr. M. M. Pennell, Managing Director of BP Exploration Company Limited, was appointed to the Board to fill this vacancy, and Mr. C. R. T. Cunningham, Vice-President of Cochran, Murray & Co. Limited, was appointed an additional director.

It is my pleasure to express, on behalf of the Directors, their appreciation for the efforts, enthusiasm and continuing support of all personnel in meeting the additional challenges of our expanding operations.

Submitted on behalf of the Board,



J. H. PORTER, *President*

Calgary, Alberta
March 29, 1968



REVIEW OF OPERATIONS

EXPLORATION AND DEVELOPMENT:

Exploration in 1967 resulted in several significant discoveries and field extensions. It was an encouraging start to an enlarged program of exploration based on the agreement reached in December 1966 for joint ventures with associated companies of the British Petroleum Group.

As a result of the arrangement, these joint expenditures on exploration (excluding development) in 1967 amounted to some \$6 million, of which Triad's share was \$3.13 million. The enlarged budget, in addition to reducing the overheads borne by Triad, has made possible a considerable improvement in exploration land holdings which, as can be seen on the accompanying map, now provide better representation, geologically and geographically, throughout Western Canada.

Towards the end of 1967 the Triad Group achieved encouraging results in two wells at South Nevis and East Buffalo in east-central Alberta. Both were Devonian oil discoveries. The accu-

mulations are in reef pools of small areal extent but substantial thickness, and receive high producing allowables. The nature of the discoveries makes development drilling unnecessary. Triad has assembled approximately 190,000 acres in lease permits and options in the general area, and further exploration is continuing in 1968.

Also in east-central Alberta, Triad participated in the discovery of a low-gravity (24° A.P.I.) oil pool, four miles southwest of the Chauvin oilfield, in which Triad has a major interest. The discovery was made in the Lower Cretaceous Sparky formation, encountering 30 feet of net pay at a depth of 2000 feet. Development drilling has resulted in three additional oil wells and will be continued later in 1968. At the main Chauvin field, further development drilling was carried out resulting in 10 additional oil wells and one dry hole. With the reservoir now delineated, the initial pilot waterflood is being expanded to a full-scale project. Triad's interest in the enlarged unit is 86.5%.

MAIN RESULTS OF 1967 EXPLORATION

Location	Nature	Producing Formation	Depth feet	Net Pay feet
South Nevis	Oil (32° API)	D3	5,760	226
East Buffalo	Oil (30° API) & Gas	D3	5,450	88 (oil) 10 (gas)
Fox Creek	Wet sour gas	Beaverhill	11,000	confidential
South Chauvin	Oil (24° API)	Sparky	2,000	30
Sullivan Lake	Gas	Viking	3,200	17
East Calgary	{ Oil (33° API)	Elkton	6,950	26
	{ Wet sour gas	Crossfield	8,260	47

Early in 1968 Triad and partners completed an important Beaverhill reef well at Fox Creek, 140 miles northwest of Edmonton, indicating a southward extension of the South Kaybob condensate and sulphur bearing gas field. The discovery was one of three wells drilled by oil companies prior to the Alberta Government land sale on January 23, 1968, at which a nearby drilling reservation was sold for a record high price. Triad had previously acquired 1,880 net acres in the area which continues to be a focal point of interest. A number of additional wells are currently being drilled by other companies.

Other exploration in Alberta resulted in a Viking gas discovery at Sullivan Lake and a well in the East Calgary area which established an extension of the Devonian Crossfield sour gas field. The latter well also found Mississippian oil which is now being produced. No further development drilling is warranted in the East Calgary area following an unsuccessful offset well which had

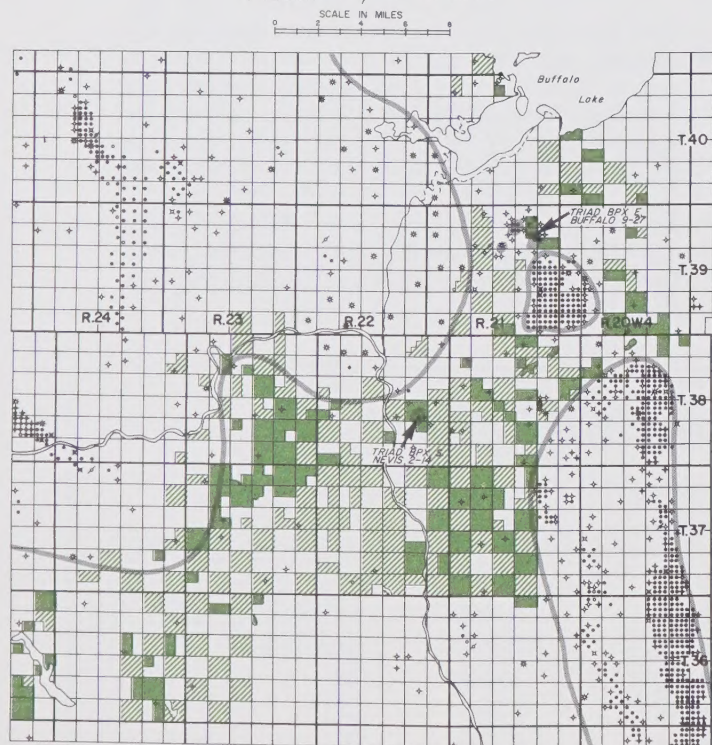
insufficient productivity for completion. In 1968 two additional exploratory gas wells and one unsuccessful test have been drilled at Sullivan Lake and more drilling is planned.

Follow-up drilling to the Company's Beaverhill oil discovery at Ante Creek proved disappointing. Two additional oil wells were drilled in 1967, but a stepout well failed to find reef and was abandoned. Depth to the producing horizon is 11,000 feet. Development drilling was stopped, the area being only marginally economic under the present Alberta prorationing system.

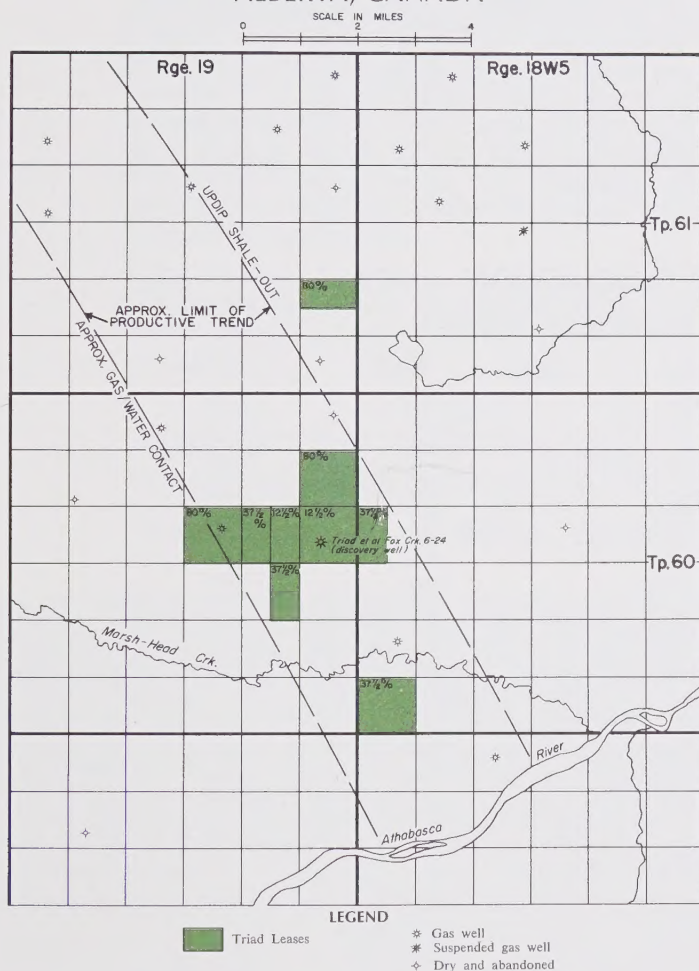
No further exploration is planned in the current year at Sukunka in the foothills of British Columbia, where Triad and partners found sour gas in 1965 in the Triassic reservoir. A stepout well to the south, drilled in 1967, was abandoned and follows on a similar abandonment to the northwest in 1966. The area remains of interest for its longer term potential.

SOUTH NEVIS AND E. BUFFALO LAKE AREAS

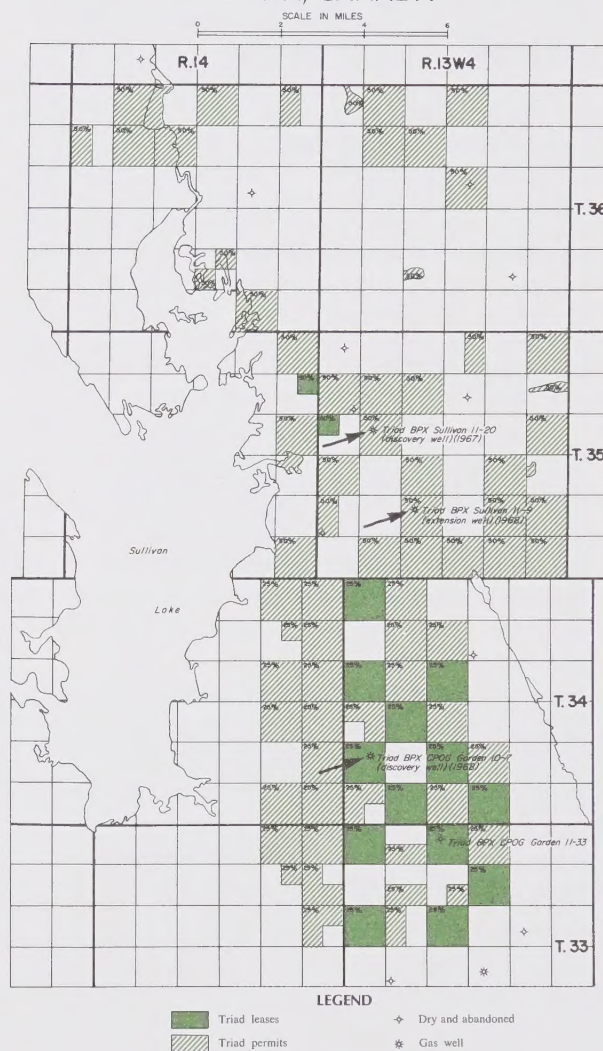
ALBERTA, CANADA



FOX CREEK AREA ALBERTA, CANADA



SULLIVAN LAKE AREA ALBERTA, CANADA



HEAVY OIL EXPERIMENTAL PROJECT:

Since 1965 Triad and BP have conducted an experimental project at Marguerite Lake (in the Cold Lake area of Alberta, about 170 miles northeast of Edmonton). The purpose is to determine the economic feasibility of large-scale commercial production of heavy oil of 10° to 12° A.P.I. which occurs in several thick zones at

depths from 1000 to 1600 feet. The joint group, in which Triad's interest is 10%, holds 155,000 acres in an area where oil in place has been estimated to amount to as much as 100 million barrels per section. Results in 1967 were sufficiently encouraging to justify continuing the experiment on an expanded scale.

RESERVES:

Additions to oil reserves at Chauvin, as a result of development drilling and the enlarging of the waterflood project, together with new reserves discovered at South Nevis and East Buffalo, were almost sufficient to replace the year's production. Natural gas reserves were up on the previous year and sulphur down fractionally.

The Company's net proven reserves at the end of 1967 with comparative totals for 1966 are shown in the adjacent table:

	Crude Oil and Liquids (million bbls.)	Natural Gas (billion cu. ft.)	Sulphur (long tons)
Alberta . . .	68.3	565	1,320,000
Saskatchewan .	19.1	7	—
British Columbia	3.6	38	122,000
At end 1967 .	91.0	610	1,442,000
At end 1966 .	92.0	601	1,480,000

PRODUCTION:

Increases in production of crude oil and gas liquids from the Company's high reserve pools in Alberta were more than offset by the restriction of production in Saskatchewan due to market prorationing, by the natural decline of a number of older wells, and by the sale of producing properties in Ontario in mid-1966. The net result was oil production of 16,068 barrels per day in 1967 compared to 17,097 barrels per day in 1966. With the anticipated resumption of normal marketing conditions in Saskatchewan, production in 1968 is estimated to remain at about the 1967 level.

Natural gas sales averaged 38 million cubic feet per day, an increase of 17% over sales of 32.5 million cubic feet per day in 1966. Sulphur sales in 1967 increased by 14%, to 66,226 long tons, compared to 57,970 long tons in 1966.

The major portion of the Company's production of natural gas and gas products comes from the Edson and Okotoks fields in Alberta. During 1967 gas production was initiated from the Company's interests in the Ghost Pine area. It is anticipated that gas and sulphur sales in 1968 will show small increases over 1967 levels.

OIL PRODUCTION — NET

DAILY AVERAGE BARRELS

	1967		1966	
Alberta				
Redwater	1,602		1,520	
Inverness	1,467		1,416	
Pembina	1,198		1,252	
Sturgeon Lake South	761		800	
Chauvin	689		563	
Swan Hills	657		548	
Harmattan-Elkton	325		342	
Snipe Lake	206		218	
Stony Plain	194		178	
Ante Creek	177		21	
Other areas	903		826	
Sub total	8,179	50.9%	7,684	44.9%
British Columbia				
Beatton River	994		1,427	
Other areas	14		2	
Sub total	1,008	6.3%	1,429	8.4%
Saskatchewan				
Dollard	2,250		2,690	
Steelman	1,073		1,180	
Weyburn	1,024		1,100	
Instow	710		897	
Rapdan	255		309	
Parkman	224		237	
Arlington	189		197	
Wapella	186		205	
Arcola	179		214	
Other areas	782		777	
Sub total	6,881	42.8%	7,806	45.7%
Ontario				
Gobles-Rodney	—		178	
Sub total	—	—	178	1.0%
Total All Areas	16,068	100.0%	17,097	100.0%

FINANCIAL:

Revenue from production at \$18,671,271 was 2.6% higher than in 1966. The following table shows the sources of revenue by product:

	1967		1966	
	THOUSANDS OF DOLLARS			
Crude oil and natural gas liquids	\$13,995	75%	\$14,731	81%
Natural gas	2,140	11	1,786	10
Sulphur	2,536	14	1,680	9
	<u>\$18,671</u>	<u>100%</u>	<u>\$18,197</u>	<u>100%</u>

Net earnings were \$2,290,355 compared to \$1,987,580 in the previous year — an increase of 15.2%.

Increases in operating costs were more than offset by reductions in interest payments and savings in administrative expenses, the latter reflecting economies arising from the joint exploration arrangement with other BP subsidiaries.

Redemption of the minority interest in Devon-Palmer Oils Ltd. was completed at a cost of \$2,485,761. This had the effect of reducing working capital to a deficit of \$2,307,714 at the year end after making provision for 1968 long term debt obligations of \$4,752,851.

Cash generated from operations during 1968 will be sufficient, with the assistance of short term banking accommodation, to meet the requirements for exploration and routine development and to service debt. Development of new sources of income will be financed by additional borrowings.

LAND HOLDINGS:

Substantial changes in land holdings were made in 1967 to implement expanded exploration policies. Efforts are being further concentrated in the plains areas of Alberta, Saskatchewan and British Columbia which offer a variety of geological prospects. Triad's emphasis is on various Devonian objectives which have provided the industry's major discoveries in past years. Larger permit and reservation blocks have been secured in these areas providing greater representation. In keeping with this policy, further acreage was surrendered in several foothills areas and more farmout arrangements were made of the Company's Ontario leases. During 1968 it is planned to continue building up the land inventory and particularly to augment holdings of acreage suited to long-term exploration.

The following summarizes the increase in land holdings during the year (detailed by province in the accompanying table):

	ACRES	
	Gross	Net
Acreage acquired .	1,319,270	688,643
Acreage surrendered	395,242	278,292
Increase in acreage .	924,028	410,351

LAND SUMMARY

	December 31, 1966		New Acquisitions		Surrenders		December 31, 1967	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Leases								
Alberta	1,240,279	465,176	158,527	110,809	95,314	49,878	1,303,492	526,107
British Columbia . .	570,996	353,867	23,507	8,606	19,965	12,374	574,538	350,099
Saskatchewan . . .	211,186	81,032	41,839	15,537	21,112	12,522	231,913	84,047
Ontario	35,985	3,141	—	—	3,790	579	32,195	2,562
Total	2,058,446	903,216	223,873	134,952	140,181	75,353	2,142,138	962,815
Reservation and Permit								
Alberta	481,931	336,417	452,273	365,722	67,200	81,600	867,004	620,539
British Columbia . .	103,629	32,056	133,679	48,334	73,243	26,151	164,065	54,239
Saskatchewan . . .	337,418	222,956	266,858	95,935	114,618	95,188	489,658	223,703
Northwest Territories	31,162	31,162	—	—	—	—	31,162	31,162
Total	954,140	622,591	852,810	509,991	255,061	202,939	1,551,889	929,643
Major Options								
Alberta	—	—	114,867	15,400	—	—	114,867	15,400
Saskatchewan . . .	—	—	127,720	28,300	—	—	127,720	28,300
Total	—	—	242,587	43,700	—	—	242,587	43,700
Total	<u>3,012,586</u>	<u>1,525,807</u>	<u>1,319,270</u>	<u>688,643</u>	<u>395,242</u>	<u>278,292</u>	<u>3,936,614</u>	<u>1,936,158</u>

TRIAD OIL CO. LTD. TEN YEAR STATISTICAL

FINANCIAL	1967	1966
Gross Revenue	\$18,821,000	18,456,000
Operating Expense	\$ 3,279,000	3,079,000
General and Administrative Expense	\$ 883,000	931,000
Interest Expense	\$ 3,967,000	4,226,000
Cash Flow	\$10,692,000	10,220,000
Per share	60c	57c
Net Earnings (Loss)	\$ 2,290,000	1,988,000
Per share	13c	11c
Long Term Debt	\$63,964,000	70,531,000
Working Capital	\$(2,308,000)	1,666,000
Expenditures on exploration	\$ 3,134,000	3,685,000
Expenditures on development including plant and equipment	\$ 2,467,000	2,636,000
Purchases of shares in, or assets of other companies	\$ 2,486,000	(901,000)
Shareholders' Equity	\$25,162,000	22,724,000
Number of shares outstanding	17,791,029	17,791,029

OPERATING

Net sales – oil and liquids (bbls.)	5,864,931	6,240,371
– natural gas (mmcf)	13,869	11,871
– sulphur (long tons)	66,226	57,970
Average selling prices		
– oil and liquids (per bbl.)	\$ 2.39	2.36
– natural gas (per mcf)	15c	15c
– sulphur (per long ton)	\$ 38.29	28.99
Land Holdings		
Gross acres	3,936,614	3,012,586
Net acres	1,936,158	1,525,807

Certain adjustments have been made to previously published figures to conform to current presentation.

SUMMARY . . . (including subsidiary companies from date of acquisition)

1965	1964	1963	1962	1961	1960	1959	1958
4,523,000	10,470,000	6,850,000	3,977,000	3,420,000	2,390,000	2,934,000	3,016,000
2,542,000	1,887,000	1,475,000	419,000	379,000	284,000	348,000	283,000
869,000	658,000	698,000	667,000	498,000	587,000	740,000	1,193,000
3,283,000	2,354,000	1,614,000	1,425,000	1,425,000	1,425,000	1,544,000	1,425,000
7,859,000	5,571,000	3,063,000	1,466,000	1,118,000	94,000	302,000	115,000
44c	31c	18c	9c	7c	1c	2c	1c
567,000	(969,000)	(1,467,000)	(1,246,000)	(1,430,000)	(3,658,000)	(3,310,000)	(4,663,000)
3c	(5c)	(9c)	(7c)	(9c)	(27c)	(24c)	(39c)
5,184,000	47,119,000	32,867,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
438,000	1,662,000	4,117,000	2,616,000	9,104,000	13,419,000	15,416,000	13,511,000
2,955,000	3,117,000	2,431,000	2,128,000	1,053,000	1,545,000	3,016,000	4,540,000
2,914,000	1,448,000	1,675,000	887,000	580,000	546,000	833,000	2,036,000
0,451,000	20,790,000	(964,000)	4,931,000	9,931,000	—	—	—
0,510,000	19,895,000	17,899,000	18,891,000	20,137,000	15,209,000	18,545,000	16,393,000
7,791,029	17,791,029	16,791,029	16,791,029	16,791,029	13,707,504	13,707,504	11,914,845
5,400,259	4,134,824	2,408,635	1,458,874	1,250,255	810,304	978,522	767,242
6,167	4,081	3,455	605	—	—	—	—
73,005	56,272	52,954	—	—	—	—	—
2.30	2.22	2.32	2.40	2.33	2.26	2.35	2.52
14c	13c	13c	15c	—	—	—	—
15.08	11.20	11.89	—	—	—	—	—
3,841,005	4,310,350	5,393,021	7,292,271	8,103,986	9,097,908	7,503,547	7,933,646
1,611,739	1,729,410	2,110,051	2,782,349	2,917,205	2,308,530	2,807,947	2,942,040

TRIAD OIL CO. LTD. AND SUBSIDIARY COMPANIES

CON

ASSETS

Current:	1967	1966
Cash	\$ 1,221,728	\$ 672,078
Short term investments at market which is lower than cost	55,080	4,590,558
Accounts receivable –		
Affiliates	1,749,329	103,073
Other	2,402,424	3,217,540
Supplies at cost and other prepaid expenses .	661,745	629,752
	<u>6,090,306</u>	<u>9,213,001</u>
Investments and Advances:		
Shares in other companies at cost (Note 3) .	2,107,924	2,020,596
Deposits and long term receivables	469,136	397,155
	<u>2,577,060</u>	<u>2,417,751</u>
Property, Plant and Equipment at Cost:		
Producing properties	91,239,740	89,238,557
Non-producing properties	14,205,880	13,604,250
Production and other equipment	21,132,973	20,098,833
	<u>126,578,593</u>	<u>122,941,640</u>
Less –		
Accumulated depletion	28,824,356	24,734,187
Accumulated depreciation	9,100,722	7,960,663
	<u>37,925,078</u>	<u>32,694,850</u>
	<u>88,653,515</u>	<u>90,246,790</u>
Other:		
Debt discount and financing costs less amounts written off	202,988	289,652
	<u>\$ 97,523,869</u>	<u>\$102,167,194</u>

OLIDATED BALANCE SHEET DECEMBER 31, 1967 AND 1966

LIABILITIES

Current:	1967	1966
Accounts payable and accrued liabilities . . .	\$ 3,043,142	\$ 1,845,121
Interest accrued on long term debt	602,027	654,303
Long term debt due within one year (Note 4) .	4,752,851	5,047,646
	<u>8,398,020</u>	<u>7,547,070</u>
Long Term Debt (Note 4)	<u>63,964,284</u>	<u>70,530,896</u>
Minority Interest in Subsidiary (Note 2) . . .	<u>-</u>	<u>1,365,275</u>

Shareholders' Equity:

Share capital –		
Authorized – 25,000,000 shares of no par value		
Issued – 17,791,029 shares	45,086,255	45,086,255
Deficit	(19,924,690)	(22,362,302)
	<u>25,161,565</u>	<u>22,723,953</u>

On behalf of the Board:

 Director.

 Director.

\$ 97,523,869 \$102,167,194

(See accompanying notes)

CONSOLIDATED STATEMENT OF EARNINGS

Years ended December 31, 1967 and 1966

	1967	1966
Production revenue	\$18,671,271	\$18,197,477
Investment income	149,701	259,038
	<u>18,820,972</u>	<u>18,456,515</u>
Deduct:		
Operating expenses	3,279,199	3,078,692
Administrative and general expenses	883,026	931,419
Interest on long term debt	3,967,184	4,226,274
	<u>8,129,409</u>	<u>8,236,385</u>
Earnings before the following deductions	<u>10,691,563</u>	<u>10,220,130</u>
Deduct:		
Depletion	4,498,070	4,585,916
Depreciation	1,318,493	1,119,057
Rentals on non-producing properties	625,614	633,779
Abandonments and exploration expenses	1,812,096	1,701,125
Debt discount and expense written off	86,662	46,660
	<u>8,340,935</u>	<u>8,086,537</u>
Earnings before minority interest	<u>2,350,628</u>	<u>2,133,593</u>
Minority interest in earnings of subsidiary (Note 2)	60,273	146,013
Net earnings for the year (Note 5)	<u>\$ 2,290,355</u>	<u>\$ 1,987,580</u>

CONSOLIDATED STATEMENT OF DEFICIT

Years ended December 31, 1967 and 1966

	1967	1966
Deficit at beginning of year	\$22,362,302	\$24,576,557
Less:		
Net earnings for the year	2,290,355	1,987,580
Discount on purchase of 4¾ % Notes	147,257	226,675
	<u>2,437,612</u>	<u>2,214,255</u>
Deficit at end of year	<u>\$19,924,690</u>	<u>\$22,362,302</u>

(See accompanying notes)

CONSOLIDATED STATEMENT OF SOURCE and APPLICATION OF FUNDS

Years ended December 31, 1967 and 1966

	1967	1966
SOURCE OF FUNDS:		
Earnings before depletion, depreciation and other charges	\$10,691,563	\$10,220,130
Long term borrowing	600,000	2,275,000
Proceeds from sale of properties	—	988,244
	<u>11,291,563</u>	<u>13,483,374</u>
 APPLICATION OF FUNDS:		
Increase in production and other equipment	1,393,620	1,421,672
Exploration and development expenses including rentals on non-producing properties	4,207,181	4,899,573
Acquisition of minority interest (Note 2)	2,485,743	87,553
Retirement of long term debt	7,019,355	6,701,373
Increase in investments and advances	159,309	144,957
	<u>15,265,208</u>	<u>13,255,128</u>
Decrease in working capital for the year (increase)	<u>\$ 3,973,645</u>	<u>\$ (228,246)</u>

(See accompanying notes)

AUDITORS' REPORT

To the Shareholders of
Triad Oil Co. Ltd.

We have examined the consolidated balance sheet of Triad Oil Co. Ltd. and subsidiary companies as at December 31, 1967 and the consolidated statements of earnings, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of Triad Oil Co. Ltd. and subsidiary companies as at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
February 29, 1968.

CLARKSON, GORDON & CO.
Chartered Accountants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1967

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all its subsidiaries. The excess of the consideration paid for the shares of purchased subsidiaries over the net book value of the related assets at dates of acquisition is attributable to property, plant and equipment and is included therein in the accompanying consolidated balance sheet.

2. ACQUISITION OF MINORITY INTEREST

Effective March 8, 1967 Devon-Palmer Oils Ltd. (a subsidiary) amalgamated with another subsidiary of Triad Oil Co. Ltd. The minority common shareholders of Devon-Palmer received 1,076,985 5¼% redeemable preferred shares of a par value of \$2.25 each of the amalgamated company in exchange for their common shares of Devon-Palmer, and Triad Oil Co. Ltd. became the owner of all of the common shares of the amalgamated company. The preferred shares of the amalgamated company were called for redemption at par on April 30, 1967. To December 31, 1967, 845,804 shares had been redeemed and the liability in respect of the remaining shares has been provided for in the accounts.

3. SHARES IN OTHER COMPANIES

The companies' investment in shares of other companies at December 31, 1967 consists of the following:

	Number of Shares	Cost	Quoted market value
British Columbia Oil Lands Ltd.	329,319	\$ 740,968	\$2,600,000
Northern and Central Gas Company Limited	83,756	1,071,578	995,000
Other		295,378	Not quoted
		<u>\$2,107,924</u>	

Because of the number of shares involved, the market values are not necessarily indicative of the amount that could be realized if these investments were sold.

4. LONG TERM DEBT

Details of the companies' long term debt are as follows:

	1967	1966
Triad Oil Co. Ltd. —		
4¾% Notes due September 15, 1971 subject to annual sinking fund payments of \$2,143,000 (\$11,857,000 held by an affiliate)	\$22,571,000	\$25,714,000
Bank loans secured by certain oil and gas properties, payable over a period of five years	5,786,825	6,455,525
Notes payable monthly to July 15, 1980, out of the proceeds from production of certain properties		
5¾% Series A Notes	2,665,240	3,667,640
6¼% Series B Notes (repayments commence 1971)	21,000,000	18,500,000
5% Loan payable on July 1, 1968	3,000,000	6,000,000
Accrued interest thereon	69,452	138,904
(The principal and interest on this loan will be paid out of the proceeds of the issue of additional 5¾% Series A Notes).		
Subsidiaries —		
5½% Promissory Note payable \$1,000,000 annually to an affiliate from 1968 to 1971 and the balance in 1972 and 1973	11,958,473	12,958,473
5¾% First Mortgage Bonds due 1971 subject to annual sinking fund payments (\$785,373 in 1968)	980,145	1,400,000
5% First Mortgage Bonds due 1982 subject to annual sinking fund payments of \$56,000 in 1968 and declining amounts thereafter	686,000	744,000
	<u>68,717,135</u>	<u>75,578,542</u>
Included in current liabilities as due within one year	4,752,851	5,047,646
	<u>\$63,964,284</u>	<u>\$70,530,896</u>

In addition to the amount included in current liabilities shown above, it is estimated that repayments of the 5¾% Series A Notes of Triad Oil Co. Ltd. from 1968 production proceeds will amount to \$1,650,000.

5. INCOME TAXES

It is the practice of the companies to capitalize the acquisition cost of properties and productive drilling and development expenditures. Under Canadian income tax law, such expenditures are deductible from income in the year incurred or, if expenditures exceed income for the year, the excess may be carried forward to subsequent years. As a result, no provision for income taxes was required for the year ended December 31, 1967 and at that date, accumulated expenditures of approximately \$45,000,000 were available to be carried forward and applied against future taxable income.

6. STATUTORY INFORMATION

The aggregate direct remuneration of the directors and senior officers of the Company during 1967 amounted to \$165,620.

TRANSFER AGENTS AND REGISTRARS

CANADA

Canada Permanent Trust Company
Calgary - Vancouver - Winnipeg - Montreal
The Canada Trust Company
Toronto

UNITED STATES

Morgan Guaranty Trust Company of New York
Transfer Agent
New York
The Bank of New York
Registrar
New York

TRUSTEE

Canada Permanent Trust Company

AUDITORS

Clarkson, Gordon & Co.

STOCK EXCHANGE LISTINGS

Toronto - Montreal - Calgary - Vancouver

SUBSIDIARY AND AFFILIATED COMPANIES

Triad Petroleum Development Ltd. – *incorporated under the Laws of Canada (100% owned)*
Triad Realities Ltd. – *incorporated under the Laws of the Province of Alberta (100% owned)*
Triad Oil Company of Canada – *incorporated under the Laws of the State of Delaware (100% owned)*
Triad Oil Manitoba Ltd. – *incorporated under the Laws of the Province of Manitoba (100% owned)*
British Columbia Oil Lands Ltd. – *incorporated under the Laws of the Province of British Columbia (34.8% owned by Triad Manitoba)*

